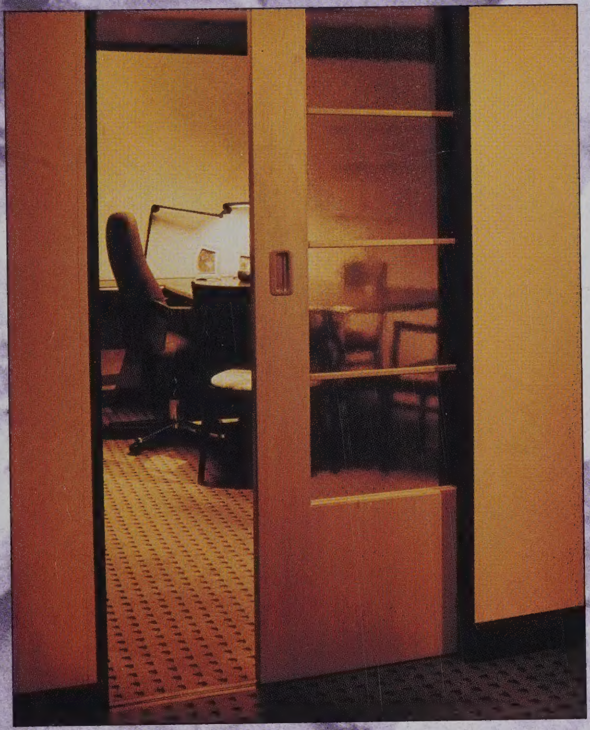
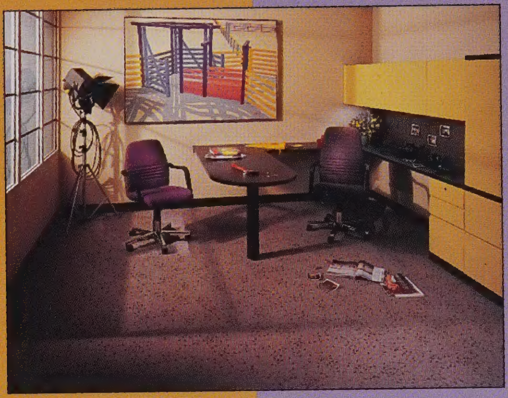
*life*SPACE

ENVIRONMENTAL WALLS INC.



[*life*•SPACE];*n* a unitized wall system with the flexibility to create any aesthetic within an office environment while maintaining the ability to accommodate change quickly and cleanly with minimum negative effects on the environment.



LifeSpace is in the business of manufacturing and marketing unitized movable walls for office, institutional and medical environments. LifeSpace movable walls address a major issue in work environments today - the issue of preserving flexibility so clients can respond quickly and efficiently to their changing circumstances over time. They allow clients to constantly reconfigure their work environments to adapt to the changing requirements of a company's greatest resource - its people. As well, since LifeSpace product is virtually 100% reusable, we address the external environmental issues of waste management, recycling and conservation.

LifeSpace existed previously as a company by the name of Prowest Partitions. Prowest, based in Calgary from 1982 to 1991, had engineered a movable wall based on an excellent concept and sold it to a number of major corporations including ESSO, AMOCO, British Petroleum, Husky Oil and Canadian Hunter during the 1980's.

Financial partners in Prowest approached Mogens Smed in 1992 with a view to somehow incorporate Prowest into the SMED family of products. The fit seemed perfect - SMED is in the business of creating flexible, aesthetically pleasing office environments and movable walls are a natural adjunct to this.

A deal was struck in 1992 whereby the previous financial partners in Prowest together with Mogens Smed, SMED employees, and friends and associates of SMED, purchased the assets of Prowest and formed LifeSpace. LifeSpace acquired a listing on The Alberta Stock Exchange through an amalgamation with The Albany Corporation. Most importantly, LifeSpace signed a Marketing and Distribution Agreement with SMED in September 1993 pursuant to which SMED agreed to provide manufacturing expertise and acquired exclusive rights to market and distribute LifeSpace movable walls through the SMED distribution network.

SMED's marketing and distribution network currently consists of 29 showrooms throughout Canada, the United States, the Far East and London, England. This network includes over 120 SMED sales representatives worldwide along with an extensive network of independent dealers that have incorporated the LifeSpace product. This has created an enviable position for LifeSpace as one of the leading wall companies in the industry taking advantage of this mature and developed marketing network.

I am very pleased to present LifeSpace's first Annual Report for the fiscal year ended June 30, 1994.

In terms of financial performance, LifeSpace finished the year with a net loss of $829,000 on sales of $3,430,000. While these financial results are not as encouraging as the break even forecast on sales of $3,600,000, a detailed review of the highlights of LifeSpace's year leaves me very optimistic about our prospects for the coming year.

I do not believe that our financial results are at all reflective of the excellent foundation we laid in building a company poised for strong growth in the immediate and long term future. Rather, the statement of operations loss reflects a substantial investment we made during the year in further developing our product, marketing network and sales force.

As a result of these investments, LifeSpace has a marketing and distribution network that is second to none in our industry. We currently have showroom displays in 6 cities in Canada, 11 cities in the United States and in Hong Kong. During the year, our investment in these showrooms was in excess of $300,000. Aside from the important market exposure gained through showrooms, we invested $88,000 to attend 4 major industry trade shows.

Through our strategic alliance with SMED Manufacturing Inc., LifeSpace is marketed throughout North America and in the Far East by more than 120 sales representatives. We spent approximately $30,000 training these individuals so they could be more effective presenting LifeSpace to potential clients.

Nearly $100,000 was invested in product development resulting in some significant product refinements including the implementation of a unitized base track that makes LifeSpace easier and quicker to install and relocate. Numerous other improvements added to the flexibility and aesthetic appeal of LifeSpace, allowing us to firmly establish LifeSpace as a leading product in the movable wall industry.

Our experience last year proved to us that the selling cycle for movable walls -- the time from initial client contact to receipt of an order -- is longer than we had initially expected and certainly longer than SMED sales representatives experience in the office systems furniture industry. Indeed, some major orders we had expected in the last quarter of fiscal 1994 did not close until the first quarter of 1995. I am very encouraged that sales will substantially increase as we are now starting to harvest the results of the work done since the inception of the company two years ago. I believe this

will continue as we are seriously in contention for a large number of contracts all over North America and in Hong Kong.

It is also significant that LifeSpace has developed in such a manner that its success will not be dependent on winning large contracts. With SMED's well developed and mature marketing network in place, LifeSpace has received, and will likely continue to receive, a large number of smaller orders. The advantage of this is that these types of orders do not disappear in economic down cycles as the large orders do, so they can support sustained growth. In addition, these smaller orders usually lead to higher margins and give us the opportunity to grow with our clients. Certainly large orders are a boon and we are under consideration for several, but our survival is not dependent on winning them.

In spite of our best due diligence efforts, we were surprised by a few events that negatively affected cash flow:

First, the product we inherited from Prowest required further government approvals. The testing required to obtain these were more expensive and time consuming than we had anticipated. All required approvals, though, are now in place.

Second, the amalgamation with The Albany Corporation, through which we obtained our listing on The Alberta Stock Exchange, was more difficult and time consuming than we had anticipated. There was also an increase in legal, accounting, transfer agent and stock exchange fees regarding this transaction. Again, this transaction is behind us and these non-recurring fees will not impact the statement of operations in the 1995 fiscal year.

Finally, we had anticipated more residual business from Prowest clients than turned out to be the case. This residual business is now, however, starting to increase.

At this point I want to thank all the people and shareholders who have supported us as we have progressed through the difficult start-up stage of this company. In particular, the financial support of SMED has allowed us to survive a year of negative cash flow.

We now have most of the major required investment behind us and we are well poised for significant growth in sales in fiscal 1995. With the continued support of the shareholders, I look forward to reporting significantly better financial results this time next year.

Mogens F. Smed
President

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of LifeSpace Environmental Walls Inc. as at June 30, 1994 and 1993 and the statements of operations and deficit and changes in financial position for the year ended June 30, 1994 and the period from reorganization on September 1, 1992 to June 30, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 1994 and 1993 and the results of its operations and the changes in its financial position for the year ended June 30, 1994 and the period from reorganization on September 1, 1992 to June 30, 1993 in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

Chartered Accountants

Calgary, Canada
October 21, 1994

JUNE 30, 1994 AND 1993

	1994	1993
Assets		
Current assets:		
Cash	$ 35,821	$ 24,649
Accounts receivable	475,415	244,713
Prepaid expenses	8,665	17,873
	519,901	287,235
Capital assets (note 5)	1,072,477	885,625
Intangible properties (note 6)	952,375	1,004,075
	$2,544,753	$2,176,935
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 335,659	$ 452,860
Customer deposits	258,035	63,143
Due to related parties (note 7)	847,043	551,333
Debenture (note 7)	439,600	-
	1,880,337	1,067,336
Shareholders' equity:		
Capital stock (note 8)	2,793,908	2,410,256
Deficit	(2,129,492)	(1,300,657)
	664,416	1,109,599
Financial reorganization (note 2)		
Future operations (note 3)		
Commitments (note 10)		
Contingencies (note 11)		
	$2,544,753	$2,176,935

See accompanying notes to financial statements.

Approved by the Directors:

Director

Director

STATEMENTS OF OPERATIONS AND DEFICIT

Year ended June 30, 1994, with comparative figures for the ten months ended June 30, 1993

	1994	1993
Sales	$ 3,429,796	$ 790,829
Cost of sales	2,007,221	533,344
	1,422,575	257,485
Marketing	1,058,362	233,965
General and administrative	469,045	83,010
Production overhead and indirect materials	456,318	75,641
Interest	46,014	–
Depreciation and amortization	221,671	43,243
Net development expenses	–	1,122,283
	2,251,410	1,558,142
Loss for period	(828,835)	(1,300,657)
Deficit, beginning of period	(1,300,657)	–
Deficit, end of period	$(2,129,492)	$(1,300,657)
Loss per share (note 4(d))	$ (.03)	$ (.06)

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Year ended June 30, 1994, with comparative figures for the ten months ended June 30, 1993

	1994	1993
Cash provided from (used in):		
Operations:		
Loss for period	$ (828,835)	$(1,300,657)
Depreciation and amortization	221,671	43,243
Net change in non-cash working capital balances related to operations	151,907	804,750
	(455,257)	(452,664)
Financing:		
Debenture	439,600	–
Capital stock	383,652	2,410,256
	823,252	2,410,256
Investments:		
Net assets acquired on financial reorganization (note 2)	–	(1,000,000)
Capital assets	(356,823)	(932,943)
	(356,823)	(1,932,943)
Increase in cash	11,172	24,649
Cash, beginning of period	24,649	–
Cash, end of period	$ 35,821	$ 24,649

See accompanying notes to financial statements.

YEAR ENDED JUNE 30, 1994

LifeSpace Environmental Walls Inc. is incorporated under the Alberta Business Corporations Act and is engaged in the business of manufacturing and installing relocatable office wall systems.

1. BUSINESS COMBINATION

On June 30, 1993, LifeSpace Environmental Walls Inc. ("LifeSpace") amalgamated with The Albany Corporation ("Albany") an inactive public company and continued under the name of LifeSpace Environmental Walls Inc. (the "Company"). The acquisition has been accounted for by the purchase method. The holders of the common shares of each of the amalgamating corporations received common shares of the Company in accordance with the following exchange ratios:

		Shares Received
Albany	21 common shares for every 1,000 common shares outstanding	545,766
LifeSpace	1,000 common shares for every 1,000 common shares outstanding	21,431,576

In addition, as a condition of the amalgamation agreement, certain debt in the amount of $444,877 of the amalgamating corporations was converted into common shares of the Company on the basis of $0.25 per share, totalling 1,779,510 common shares. The statements of operations and deficit for the period ended June 30, 1993 include the results of operations of LifeSpace and do not include the results of operations of Albany.

Albany did not have any assets. The Company incurred $123,634 of costs to affect the amalgamation.

2. FINANCIAL REORGANIZATION

LifeSpace was created on April 6, 1993 through an amalgamation of Environmental Lifespace 1992 Limited Partnership (the "Partnership") and Environmental Wall Systems Inc., (the corporate General Partner of the Partnership). The Partnership was originally formed on September 1, 1992 for the purpose of carrying on the relocatable office wall systems business, previously operated by Prowest Partitions Limited Partnership ("Prowest"). Prowest experienced cash flow difficulties forcing it to discontinue operations in 1992. On September 1, 1992 a financial reorganization of the business involving the following transactions was completed.

(a) Environmental Wall Systems Inc. acquired the business previously carried on by Prowest. Part of the acquisition involved the assumption of liabilities of the Prowest business. Agreements were reached with most of the creditors of Prowest to reduce their claims. Negotiations with the remaining creditors are continuing. (Reference is made to note 11.)

Financial Reorganization (continued):

(b) An agreement was reached with Mr. Mogens Smed, controlling shareholder of Smed, to acquire a controlling interest in Environmental Wall Systems Inc.

(c) Agreements were reached with Smed Manufacturing Inc., ("Smed"), an affiliate and office furniture manufacturer for:

(i) an exclusive Supply and Manufacturing Agreement, whereby Smed agrees to use its knowledge and expertise in the production of large product volumes to exclusively manufacture product for and supply it to the business; and

(ii) a Marketing Sales and Service Agreement, whereby Smed agrees to install and maintain showrooms incorporating the business products and use its best efforts to advertise and promote these products.

(d) Environmental Wall Systems Inc. contributed the business previously carried on by Prowest to the Partnership in exchange for partnership units.

(e) Investors contributed $250,000 cash to the Partnership.

On September 1, 1992 the assets and liabilities transferred from Prowest were comprehensively revalued based on the estimated fair market value of each major category of asset and the estimated amount required to discharge the liabilities.

	September 1, 1992 before reorganization	Reorganization adjustments	September 1, 1992 after reorganization
Accounts receivable	200,000	(115,000)	85,000
Inventory	314,000	(249,000)	65,000
Capital assets	338,000	(93,000)	245,000
Patent	18,000	(1,000)	17,000
Product design and processing	nil	500,000	500,000
Customer list	nil	500,000	500,000
Goodwill	784,000	(784,000)	nil
Accounts payable	700,000	(288,000)	412,000
Equity	954,000	46,000	1,000,000

Subsequent to the financial reorganization on September 1, 1992, the business focused on product and market development activities until it commenced commercial activities on April 1, 1993.

3. FUTURE OPERATIONS

The Company has experienced operating losses and a working capital deficiency since commencement of commercial activities. These financial statements have been prepared on the basis that the Company will be able to continue as a going concern. The Company's ability to continue as a going concern is dependent on the continued relationship with Smed as described in notes 2 and 7 and the Company's ability to achieve profitable operations. If the going concern assumption was not appropriate for these financial statements then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses and in the balance sheet classifications used. (Reference is made to notes 7, 10 and 11.)

4. ACCOUNTING POLICIES

(a) Capital assets:

Capital assets are recorded at cost and are depreciated on a straight-line basis over the following periods beginning April 1, 1993, with the commencement of commercial activities:

Equipment	5-7 years
Showrooms	7 years
Leasehold improvements	5 years

(b) Intangible properties:

Intangible properties are recorded at cost and are amortized on a straight-line basis over the following periods:

Patent	10 years
Product design and production process	20 years
Customer list	20 years

(c) Foreign currencies:

Monetary assets and liabilities denominated in a foreign currency are translated at the rate of exchange prevailing at the balance sheet date. Revenue and expenditures are translated at the average rate for the month in which the transaction occurred. Gains and losses on translation of foreign currencies are included in operations.

(d) Per share information:

Loss per share is calculated using 24,911,190 shares (1993 - 21,431,576) being the weighted average number of shares outstanding during the period.

5. CAPITAL ASSETS

			1994	1993
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Equipment	$ 455,323	$ 86,079	$ 369,244	$ 386,190
Showrooms	808,495	111,985	696,510	491,182
Leasehold improvements	8,948	2,225	6,723	8,253
	$ 1,272,766	$ 200,289	$ 1,072,477	$ 885,625

6. INTANGIBLE PROPERTIES

			1994	1993
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Patent	$ 17,000	$ 2,125	$ 14,875	$ 16,575
Product design and production process	500,000	31,250	468,750	493,750
Customer List	500,000	31,250	468,750	493,750
	$ 1,017,000	$ 64,625	$ 952,375	$1,004,075

7. RELATED PARTY TRANSACTIONS

(a) The Company has entered into certain agreements with Smed, an affiliated company, for:

(i) an exclusive Supply and Manufacturing Agreement, whereby Smed agrees to use it's knowledge and expertise in the production of large product volumes to exclusively manufacture product for and supply it to the Company, and;

(ii) a Marketing Sales and Service Agreement whereby Smed agrees to install and maintain showrooms incorporating the Company's products and use it's best efforts to advertise and promote these products.

The Company is dependent on the successful continuation of these agreements.

Included in due to related parties is $847,043 (1993 - $474,272) due to Smed, the balance of which may, at the option of Smed and providing a 90 day notice be converted into common shares of the Company based on the average trading price of the shares during the 90 day notice period.

Related party transactions (continued):

(b) Management fees paid to certain shareholders of the Company and to Smed for the year ended June 30, 1994 amounted to $240,000 (1993 - $190,000).

(c) A debenture in the amount of $420,000, plus accrued interest of $19,600, is payable to a shareholder, is due December 31, 1994, bears interest at 7% per annum and is convertible into common shares of the Company at $0.36 per share. The debenture is secured by a floating charge on all assets of the Company.

8. CAPITAL STOCK

The authorized share capital of the Company consists of an unlimited number of common shares, and an unlimited number of First Preferred shares issuable in series of which none have been issued.

The following is a summary of changes in capital stock since September 1, 1992:

	Number of shares	Amount
Issued for assets in reorganization effective September 1, 1992	21,346,314	$2,433,250
Issued for cash	85,262	34,252
Issued to former LifeSpace shareholders	21,431,576	2,467,502
Shares issued to former Albany shareholders	545,766	(123,634)
Conversion of debt	1,779,510	66,388
Balance, June 30, 1993	23,756,852	2,410,256
Issued for cash	1,333,333	383,652
Balance, June 30, 1994	25,090,185	$2,793,908

The Legal stated capital of the Company does not equal the stated capital reported above.

The Company has 612,000 stock options outstanding to a shareholder, exercisable at $0.08 per share with no expiry date. As at June 30,1994 a total of 1,778,667 common shares have been reserved for issuance pursuant to the outstanding debenture and stock options.

9. INCOME TAXES

The Company has a combined federal and provincial statutory tax rate of 44.4%. The income tax provision differs from the amount obtained by applying the combined Canadian federal and provincial income tax rate to loss for period as follows:

	1994	1993
Expected income tax recovery		
Unrecognized benefit of accounting losses	$ 368,003	$ 577,492
Non-deductible net development expenses	(345,048)	(73,459)
Non-deductible depreciation and amortization	-	(498,294)
	(22,955)	(5,739)
	$ -	$ -

The reported net accumulated development expenses and intangible properties have no tax base for the purpose of determining the taxable income of the Company. At June 30, 1994, the Company has approximately $700,000 of tax losses available (subject to confirmation by income tax authorities) the benefit of which is not recognized in these statements, to reduce future taxable income which expire beginning in the year 2000.

10. COMMITMENTS

The Company has entered into an agreement to lease manufacturing space to June 30, 1995 for $16,290.

The Company has entered into a consulting agreement for consulting services, for which the fee payable is the greater of $5,100 per month or 2% of cash receipts from the sale of products to an aggregate maximum fee of $1,000,000.

11. CONTINGENCIES

The Company, as part of the agreement to purchase the net business assets of Prowest (note 2), assumed and agreed to settle certain liabilities of that business. While management's best estimate of the outstanding liability has been provided for in these financial statements, no final determination has yet been made of the amounts that may be claimed.

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Symbol (LEW)

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